

People's Perception Towards Islamic Banking: A Field work study in Gombe Local Government Area, Nigeria

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Abstract

The main purpose of this paper is to survey the viewpoints of the people of Gombe Local Government Area to review their perceptions towards Islamic Banking. Structured into four sections, introduction, review of related literature, analysis of data and conclusion respectively, the paper presents primary data collected by means of structured questionnaire involving a sample of 134 respondents. The survey employs an exploratory factor analysis to examine respondents' perception of the subject, Islamic Banking. The survey however reveals that the perception of people in the study area is largely consistent with misconception of the subject matter and concludes by calling on relevant stakeholders including the Central Bank to initiate awareness campaign programs to orient and enlighten the public about Islamic Banking, its products, services and economic benefits to be derived from the advent of Islamic banking.

Introduction

Financial intermediation is an insidious characteristic of all the world's economies. It is the process of channelling funds or financial resources from surplus units of the economy to deficit spending units of the economy. Islamic banks, just like their western or conventional counterparts are in the business of financial intermediation and foot on profit motive also. In other words, Islamic banks like their conventional peers are financial intermediaries, trustees and custodians of people's money or financial assets. They are market driven but with ethical and moral dimensions that are based on Islamic sharia dictates which prohibits receipt and or payment of interest but rather advocates participatory banking on profit and loss sharing.

Also known as interest-free banking, Islamic Banking is not the only type of banking that is based on profit and loss sharing or one that operates on interest free basis but it is the only one that is most developed and has international acceptance. Although Islamic banking is based on Islamic religious law, it is nonetheless, not a religious bank that is restricted to people of any given religion or faith as many people misconceive. Its products and services are universally accessible to all individuals of all races and faith who wish to conduct or pursue financial transactions that are devoid of interest and ones that are in harmony with the principles of Islamic sharia law.

The key element under this system of banking is the no-interest rule, meaning that users of products or services of Islamic banks can neither earn nor pay interest on loans because the principle upon which this system of banking is based prohibits any pre-determined interest in business dealings. Secondly, all forms of investments must be made on legally and morally approved causes. This therefore imposes that every activity or transaction that will involve Islamic banks must be thoroughly screened through legal and moral filters to ascertain the worth of such ventures and or whether they are based on the principles of Islamic sharia law. This is no different from the conventional concept of ethical investing or being socially responsible.

Thus, any transactions or contracts under Islamic finance are not permissible once they involve ammunition, dealings in pork, gambling, pornography or any other products and services which are non-compliant with the principles and rules underlying the concept. They include avoidance of interest, greed and unfair exploitation, excessive speculation and uncertainty. Given this, financial services, products, contracts or transactions with Islamic banks must be structured to reflect these principles. Since its inception in Egypt in 1963 and sporadic progress in 1970s, Islamic banking has grown remarkably in size and number and since late 1980s and early 1990s, Islamic banking has been enjoying an unmatched support from the World Bank and the IMF which continued to more strategically and competitively position the hitherto infant industry to a serious player in the global financial system, catering not only for specific needs of Muslims but Non-Muslim communities alike who wish to pursue economic ventures that are devoid of interest (Dogarawa, 2011; Joseph, 2011).

This industry today is represented by over 250 financial institutions operating in over 75 countries including Kenya, Guinea, UAE, S/Africa, Sudan, India and those of Germany, France, United Kingdom and the United States. Today, a host of conventional Banks including HSBC, Barclays and Citibank are taking the lead for the provision of a wide range of interest free financial support (Visser, 2009). The total assets of the Islamic banks are estimated to be 3-4 trillion USD as at 2010 (Pena, 2011), which equals 3% of the total assets of conventional banks. Being a relatively new sector in local and international finance, Islamic banking is enjoying stable growth even in the world of financial crisis at an average rate of 15% -20% (Visser, 2009).

Section II: Review of Related Literature

The Concept of Islamic Banking

The concept of Islamic banking has been described quite distinctly by very many scholars. However, there seem to be no difference in over all meaning of the concept as portrayed by each one of them. Rammal and Zurbruegg (2007) see Islamic Banking as a banking that is based on Islamic sharia law, which follows *fighmuamalat*, a term used to describe Islamic rules of transaction. This explanation did not vary differently from that of Bello (2007) who convened that Islamic banking is a system of banking activity which is consistent with the practices and principles of Islamic sharia law and its application to the development of Islamic economics. Ahmed (2008) posited that Islamic banks are financial institutions whose rules and procedures clearly state commitment to principles governing Islamic sharia law which bans payment or receipt of interest on its operations. An Islamic bank, just like any conventional bank is a financial intermediary and at the same time a trustee and custodian of people's money or financial assets with main dissimilarities being the payoff of its clients is a share in profits and or loss while the principles of sharia govern its operations (Dar and Presley, 2000).

While ban or prohibition of Interest (*riba*) seem to be more stressed by most scholars, it is important to note that prohibition of interest is just one of the defining features of Islamic banking. Honohan (2001) convenes that Islamic banking generally precludes in strict sense recklessness or risks that are unnecessary (*gharar*), exploitation of ignorance (*jahl*) and even gambling (*maysir*). Honohan (2001) further noted that Islamic banks are financial institutions that are there to provide support for economic activities that are ethically, morally and lawfully right. To sum the assertions of these scholars, it is glaring that Islamic banking is one that is based on certain unique principles that vary from those of conventional banking. These unique principles are ones derived from axiom of justice and fairness and ones that are in harmony with the nature and reality of human beings. This unique system of banking is strictly founded and based on principles of sharia law which prohibits absolutely in any form, the receipt and or payment of any predetermined or guaranteed rate of returns, thereby shutting gates for the concept of usury or interest in financial dealings. My summary here is consistent with Iqbal (1997) assertions who noted that this system of banking rules out in complete sense the use of debt based instruments while reprehending all sorts of speculative behavior in business dealings.

Evolution of Modern Islamic Banking

Islamic banking has a recent origin as compared to its conventional counterparts. Although scholars have discussed and analyzed issues with regards to a system of banking that is interest free based much earlier, much exclusive attention to the subject matter is a twentieth century phenomenon (Bala, 2004). The first experiment of modern Islamic banking got on the way precisely on 25th July, 1963 in Egypt. This experiment was undertaken under cover for the fear of being labeled as a manifestation of Islamic fundamentalism which was anathema to the government in power (Zaman and Movassaghi, 2001).

First established in the town of Mit-Ghamr, the experiment took the form of a bank strictly meant for savings on which any realized profits during the course of operation was shared in proportion initially agreed upon between the bank and savers. Bala (2004) noted that, this was aimed at changing the fundamental attitude of the people living in the area towards savings and investment. The bank neither paid nor charged interest in all its dealings with its clients. Funds were invested often in trade and industry in partnership with others or directly by the bank and whatever profits made or returns on any ventures were shared with depositors (Ariff, 1988).

Ariff, (1988) noted that prior to Mit-Ghamr's experiment of 1963, a small scale or limited scope interest free banks had been tried before, one in Malaysia in mid 40s and the other in Pakistan in the late 1950s, neither of these two survived.

The main starting break of Islamic banking as we know it today occurred in December 1970 at the 2nd conference of foreign ministers of Muslim countries held in Karachi, Pakistan. It was at that conference that the idea of a full-fledged Islamic banking was first mooted.

It was the work of this conference that triggered the establishment of Nasr social Bank in Egypt in 1971. In 1973 and 1975, The Philippine Amanah Bank and The Dubai Islamic Bank were established. Several others like the Faisal Islamic of Sudan and Faisal Islamic bank of Egypt were established in 1977 (Bala, 2004). As at 1996, Zaman and Movassaghi (2001) documented that there were a total of 166 Islamic banks with assets worth over \$137 billion. In 2010, the total assets of the Islamic banks were estimated to be \$3-4 trillion, equaling 3% of the total assets of conventional banks (Pena, 2011).

From this, we can deduce quite easily that from its humble beginning in 1963, less than five decades now, Islamic banking is sporadically progressing from being a relatively new sector in local and international finance to one viable economies can hardly do without. Islamic banking is enjoying stable growth even in the world of financial crisis at an average rate of 15% (Visser, 2009).

Islamic Banking in Nigeria: Evolution and Status quo

Over the years, several efforts have been initiated by several institutions to provide Islamic financial products and services in Nigeria (Dogarawa, 2011). The governor of the central bank of Nigeria (CBN), Sanusi (2011) pointed out that Islamic banking, a sector in Islamic finance had been receiving serious attention by many promoters in Nigeria. He noted that the central bank regards Islamic banking in the country as a form of banking that is based on profit and loss sharing which is already contained in the constitution of Nigeria. He added that profit and loss sharing banks are ones that transact business while maintaining profit and loss accounts.

The evolution of Islamic banking in Nigeria dates as far back as 1991 when Banks and Other Financial Institutions Decree (BOFIA) was enacted. Sections 23 and 61 of the decree recognizes banks that are based on profit or loss sharing (BOFIA, 1991). Between 1993 and 1995, several investor investors began applying to the CBN for licenses to operate Islamic banks. The initiative as at then could not materialize because many investors could not comply with the requirements of the country's apex bank.

In 1996, Habib Bank, now Keystone bank opened an interest free banking window and began offering sharia compliant products and services. However, the attempt did not register any significant success simply because there wasn't any regulatory framework for interest free banking in the country. In 2004, investors continued to demand for full-fledged Islamic banks in the country. A piecemeal approval was then granted to Ja'iz international to establish Ja'iz bank subject to meeting mandatory capital requirement (Sanusi, (2011).

In 2005, FSS, known as Financial Systems Strategy was launched. The FSS provided a blue print which aimed to revolutionize Nigeria into Africa's International Financial centre (IFC) and power Nigeria in its quest to become one of top 20 world economies by the year 2020. In 2008, an Islamic Finance Working Group (IFWG) was formed. This group was supported by Enhancing Financial Innovation and Access (EFI&A) which together brought all the major stakeholders in the country's financial industry which include PENCOR, NAICOM, NDIC and market operators that were interested in offering Islamic products and services. CBN representatives merely acted as observers. Enhancing Financial Innovation and Access (EFI&A) was then conceived and offered funding by the Ford Foundation, DFID and Bill \$ Melinda Gates foundation to help promote the development of the financial industry in Nigeria.

In 2009, the CBN joined and became a full council member of the Islamic Financial Services Board. In the same year, the country's apex bank issued a draft framework which had with it blue prints for regulating and supervising non-interest banks in the country. In August 2010, The Central Bank of Nigeria introduced a new model of banking which placed non-interest banks in the category of specialized banks. Non-interest banks were then classified into two different categories which include: National non-interest banks and Regional non-interest banks. While the former was mandated by this classification to have a capital base of N10b and operate in all the 36 states of Nigeria including the capital city (FCT), the former was required to have a capital base of N5 billion and will have its presence in at least, six states and at most, twelve states of the Federation, and within one but not more than two political zones of the Federation. In January, 2011, Nigeria's apex bank released the framework for supervising and regulating interest free banking in Nigeria, with Ja'iz international bank now in operation having its head office in Abuja and branches in Kaduna and Kano.

Section III: Fieldwork study

People's perception of Islamic banking in Gombe Local Government Area, Gombe State Nigeria

1. Framework of the study

The study is an exploratory one in nature which employed a convenience sample survey. A total of 150 structured questionnaires were administered by the researchers of which 141 were completed and returned by the people who took part in the survey. Of the 141 completed questionnaires, the researchers considered 134 as complete and useable. Meaning that a total of 134 questionnaires were accurately analysed for this work.

2. Objective of the study

The sole objective of the survey was simply to assess the prior knowledge of Islamic banking of the people of Gombe LGA. This was done in order to aid policy makers and other relevant stakeholder in the Islamic banking industry in ensuring that Islamic banking gains acceptance in the area and subsequently ensuring its smooth takeoff as the subject is rather controversial in religious divided Nigeria.

3. Previous studies on Islamic Banking in the study area

Islamic banking is a widely discussed and debated subject. It is equally very popular in terms of studies that have been done by scholars at present, unfortunately, there had never been such study involving a case study dealing with the perception of the people of Gombe L.G.A about Islamic banking.

Limitations

Data collected for this research provides only an approximation of the entire population. That convenience sample was used means that data analysed and interpreted may or may not be true representation of the entire population.

4. Analysis of the Responses

Age Distribution of Respondents

The purpose of this question is to check out the age distribution of all the respondents that took part in the research process.

Age (years)	Frequency	Percentage (%)
19 and Under	13	9.70
20-29	45	33.58
30-39	39	29.10
40-49	21	15.67
50-59	11	8.21
60+	5	3.73
Total	134	100

Source: Field Survey, 2012

Thus, we conclude that, age group of 20-29, an age group with the highest participation rate of 33.58% was the age group of respondents who actually took part in this research, followed by people within the age group of 30-39, representing 29.10% of the total rate.

Gender of Respondents

The purpose of this question is simply to determine the sex or gender of respondents that participated in the research process.

Table Showing Gender of Survey Participants

Gender	Frequency	Percentage (%)
Male	83	61.94
Female	51	38.06
Total	134	100

Source: Field Survey, 2012

With 61.94% and 38.06% participation of males and females respectively, the researchers conclude that more males as compared to their female counter part actually did take part in the research.

Occupation of Respondents

Occupation	Frequency	Percentage (%)
Writer	-	-
Admin Assistant	17	12.69
Journalist	4	2.99
Secretary	5	3.73
Academic	18	13.43
Professional	18	13.43
Technical Expert	13	9.70
Student	37	27.61
Designer	2	1.49
Administrator/Manager	18	13.43
Others (House Wives)	2	1.49
Total	134	100

Response to this question shows that all respondents that took part in this research are career people with the exception of students. Students, who are mostly in higher institutions of learning had highest participation rate with 27.61%, least of which are full-time house wives representing 1.49% of the total participation rate.

Religion of Respondents

Table Showing Religions of Respondents

Religion of Respondents	Frequency	Percentage (%)
Buddhist	-	-
Christian	85	63.43
Jew	1	0.75
Muslim	48	35.82
Total	134	100

The result of this survey shows that majority of respondents who actually took part in the research are Christians (85), with a 63.43% of the total participation rate. 48 people representing 35.82% are Muslims while 1 person representing 0.75% opined to be Jew.

Educational Level of Respondents

The purpose of this question was to determine the level of education of respondents that actually took part in the survey.

Table Showing Level of Education of Survey Participants in Gombe L.G.A., 2012

Education	Frequency	Percentage (%)
High School	16	11.94
Diploma/Certificate	29	21.64
Bachelors Degree	57	42.54
Postgraduate	20	14.93
Professional	12	8.96
Other (s)	-	-
Total	134	100

While the result shows that all the respondents who actually took part in the survey are educated people, majority of them (42.54%) are people with bachelors degree or in the process of acquiring a bachelors degree. 11.94% of the survey participants have secondary school qualifications, 21.64% hold national diploma certificates while the remaining 23.89% are either professionals or people with postgraduate qualifications.

Reason(s) for Associating with a Bank

The purpose of this question is to determine whether or not the respondents have any association with banks, and if they do, what is/are the reason(s) for such associations.

Table Showing Reasons for Respondents' Association with Banks

Reason	Frequency	Percentage (%)
Investment	30	22.39
Salaries/Saving Account	98	73.13
Borrowing	1	0.75
Phone/Internet Banking	1	0.75
Others (Security)	4	2.99
Total	134	100

Source: Field Survey, 2012

Findings from this survey shows that, all the respondents do have at least one form of association with banks, reasons ranging from investment to use of phone or internet banking which enables them access account status, make transfer payments as well as settle bill with relative ease. This is a proof of how important banks or financial intermediaries are in our world today (Fakhrul-Ahsan, 1998). Particularly, the research shows that 73.13% of people who participated in this survey actually associate with Banks for saving purposes or are wage workers who are mandated to have wage accounts through which payment of their wages/salaries are made. 2.99% of the respondents opted for "Others" and specified that security safeness of their money and other valuables is the sole reason for them associating with banks.

I have heard about Islamic Banking Before now

This question was posed to determine whether or not the people have heard about Islamic Banking before the time of survey.

Table showing responses of that have heard about Islamic Banking before time of survey

Responses	Frequency	Percentage (%)
Yes	104	77.61
No	26	19.40
Don't Know	4	2.99
Total	134	100

Source: Field Survey, 2012

The result shows that 19.40% of respondents have not heard about Islamic Banking before the time of this survey. 2.99% circled "I don't know", meaning they can't exactly say or remember if they have heard about Islamic Banking before the time of this survey. However, 77.61%, believe they have heard about Islamic Banking before the time of this research was conducted.

I understand the Concept of Islamic Banking.

Table showing the understanding of the concept of Islamic Banking of survey participants

Responses	Frequency	Percentage (%)
Yes	60	44.78
No	68	50.75
Don't Know	6	4.48
Total	134	100

Given the over whelming 77.61% of respondents in the previous question who said they have heard about Islamic Banking before the time of research, responses to the question of whether or not these respondents actually know or understand the concept of Islamic Banking shows that only 44.78% of respondents did understand the concept of Islamic Banking. 50.75% of the survey participants said No, they do not understand the concept of Islamic Banking while 4.48 are not exactly sure or do not know if they actually understand the concept of Islamic Banking.

I understand that Islamic Banking is meant for Muslims only

This question sought to determine respondents' perception of Islamic banking, whether or not its meant for Islamic banking

Table Showing the understanding of survey participants on if Islamic Banking is meant for Muslims only

Responses	Frequency	Percentage (%)
Yes	36	26.87
No	70	52.24
Don't Know	28	20.89
Total	134	100

Islamic Banking is for all and sundry. This is consistent with virtually all literatures reviewed by the researchers including Dogarawa (2011); Joseph (2011); Bello (2007); Sanusi, (2011). However, the results of this survey reveals that 52.24% of the respondents actually know that Islamic banking, products and services of Islamic banks can in actual sense be used by any individual irrespective of religious faith or beliefs. 26.87% said yes to the question that Islamic banking is for Muslims only while 20.89% do not know whether or not Islamic Banking is for Muslims only.

Islamic Banking system involves an Interest Reward System

Table Showing responses of participants on whether IB involves Interest Reward System

Responses	Frequency	Percentage (%)
Yes	35	26.12
No	54	40.31
Don't Know	45	33.58
Total	134	100

Islamic Banking, also known as interest-free Banking does not involve receipt and/or payment of interest. This is backed up by positions of several scholars including Imam and Kpodar, (2010); Hussien, (2010); Visser and McIntosh (1998) as well as scriptures from the Holy Bible which includes Nehemiah 5:7, Psalms 15:5, Leviticus 25, Exodus 22:24-25, Deuteronomy 23:19-21 and Holy Quran 2:275-278, 2: 279, 3:131, 30:39. In other words, Islamic Banking system does not involve an interest reward system as Islamic sharia law prohibits "interest" in absolute terms. The survey however reveals that 26.12% of people who took part in the research think Islamic Banking involves an interest reward system. Although majority of the respondents are right that Islamic Banking does not involve any interest reward system, that majority only stood at 40.31%. 33.58% of the respondents do not know if Islamic Banking involves an interest reward system.

I know that Islamic Banking involves Profit and Loss sharing principle

The purpose of this question was to test the understanding of all the people participating in the survey on Islamic Banking.

Table Showing Responses of survey participants in Gombe L.G.A., 2012 on whether IB involves P&L Principle

Responses	Frequency	Percentage (%)
Yes	62	46.26
No	36	26.87
Don't Know	36	26.87
Total	134	100

The fact is that, Islamic Banking is not based on interest reward system; instead it is based on profit and loss sharing principle. This claim is supported by Sanusi, (2011); Iqbal, Askari and Mirakhor, (2009) and several other scholars. The results of the survey reveal that, majority of the respondents, 46.27%, actually know that Islamic Banking involves profit and loss sharing principle, while 26.87% said no, meaning that Islamic Banking does not involve profit and loss sharing principle. 26.87% of the total participation rate do not know whether or not Islamic Banking involves any profit and sharing principle.

Islamic Banks can invest in Pork Industry

This question was posed also in order to test the knowledge of the people on Islamic Banking and sorts of investments Islamic Banks can venture into.

Table 13: Showing Responses of Participants in a Survey in GombeL.G.A., 2012 on whether IB can Invest in Pork Industry.

Responses	Frequency	Percentage (%)
Yes	24	17.91
No	58	43.28
Don't Know	52	38.81
Total	134	100

Islam as a religion has a strict restriction on the consumption of pork, mainly on health grounds as convened by Shamsi, (1999). As such, Islamic Banks can not invest in pork industry. However, responses to this question show that 43.28% believe that Islamic banks can not invest in pork industry. 17.91% think Islamic banks can actually invest in pork industry while 38.81% do not know or have no idea whether or not Islamic banks can invest in pork industry.

Islamic Banks can invest in Hotel Industry

Table Showing responses of people in a survey in Gombe L.G.A., 2012 on whether Islamic Banks can invest in Hotel Industry

Responses	Frequency	Percentage
Yes	29	21.64
No	42	31.34
Don't Know	63	47.02
Total	134	100

By analyzing this question, 47.02% of responses show that participants in the survey do not know if Islamic Banks can invest in Hotel Business or industry. 31.34% said no, that Islamic Banks cannot invest in hotel industry while 21.64% said Islamic Banks can invest in Hotel industry.

Islamic Banks can venture in excessive speculative venture(s) like Gambling

Table Showing responses of survey participants in Gombe L.G.A., 2012 on whether Islamic Banks can invest in ventures that are speculative in nature.

Responses	Frequency	Percentage (%)
Yes	21	15.67
No	62	46.27
Don't Know	51	38.06
Total	134	100

Investing in ventures that are speculative in nature is considered haram or non-permissible in Islam of which gambling is an example Hussien, (2010); Imam and Kpodar, (2010). However, responses here show that 46.27% of the people that took part in the survey said No, meaning that Islamic Banks can not invest in ventures that are excessively speculative in nature. 38.06% do not know if Islamic banks can invest in businesses that involve excessive speculation while 15.67% are of the opinion that Islamic banks can invest in businesses that involve high speculation.

Islamic Banking is strictly Religion

This question was posed in order to determine what whether or not the people think Islamic banking is strictly religion.

Table Showing views of survey participants in Gombe L.G.A., 2012 about whether or not Islamic Banking is strictly religion.

Responses	Frequency	Percentage (%)
Yes	54	40.31
No	45	33.58
Don't Know	35	26.12
Total	134	100

The result shows that, 40.31% of people involved in the survey think that Islamic Banking is strictly religion. The position of this group of people contrasts sharply with true representation of Islamic Banking. In fact, their position is consistent with one common misconception of the subject matter, that Islamic Banking is strictly religion. Islamic Banking according to Sanusi (2011) is a mere alternative to the conventional banking system. The position of Sanusi (2011) is been concurred with by several other scholars including Dogarawa (2011); Joseph (2011) and Honohan, (2001). On the other hand, 33.58% of people who took part in the survey think otherwise, that Islamic Banking is not strictly religion while 26.12% do not know if Islamic Banking is strictly religion.

Based on this, the researcher concludes that majority of the respondents do not have the right perception of Islamic banking; as products and services of Islamic banking can actually be used by all and sundry irrespective of one's religious faith or beliefs .

Section IV: Conclusion

This survey has tested a number of perceptions using a well structured questionnaire. After scrutinizing the answers of all the respondents, the following can be summed up as conclusion:

1. Islamic Banking in Gombe LGA is more popular amongst young and educated people.
2. Majority of the people in the LGA (77.61%) have heard about Islamic Banking before the time of this survey. However, majority of the people (50.75%) have absolutely no understanding of the concept of Islamic Banking.
3. While 26.87% may be seen as a mere figure, it represents the percentage of people who believe Islamic Banking is for Muslims only. 40.31% as against 33.58% also believe that Islamic Banking is strictly religion.
4. As opposed to our expectations, many people from the LGA have conflicting views of what types of investment(s) Islamic Banks can venture into.

It is upon these findings that we conclude that perception of Islamic banking in Gombe LGA is but largely consistent with the misconception of the subject matter. Therefore, based on these findings, we recommend that relevant stakeholders including the Central Bank of Nigeria and licensed Islamic Bank(s) should initiate programs aimed at sensitizing and educating people of the area about Islamic Banking. This will undoubtedly enlighten the public about Islamic Banking, its products and services as well as several economic benefits that can be derived from the advent of Islamic Banking including financial inclusion, employment creation, serving as a vehicle for fund mobilization amongst others. Above all, such enlightenment campaigns will help eliminate people's misconception of the subject. Finally, this piece of research is a result of survey conducted so far on Islamic banking in Gombe LGA. Therefore, findings as presented should not be taken as conclusive but rather as indicative and perceptive. We hope that further theoretical and empirical studies will be done in this area in order to draw more definitive realities.

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